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TAGS: [EAGR](#) [EIND](#) [PGOV](#) [IV](#)
SUBJECT: COTE D'IVOIRE: TROUBLED COCOA SECTOR

Classified By: POL/ECON Jim Wojtasiewicz, reasons 1.4 (B) and (D).

11. (C) Summary. Cote d'Ivoire's 2005-2006 cocoa harvest looks to be up slightly from last year. The share of the world market price that is going to the farmers is higher than last year but still only 50 percent. Another 37 percent goes in taxes and fees to the government and to four cocoa support and regulatory organizations. Nearly all of the money being collected from farmers ostensibly to provide infrastructure and market support instead is disappearing. Unless investment in the sector picks up, Cote d'Ivoire could soon lose its place as the world's leading cocoa exporter. There is no question that corruption in the cocoa sector, and the corrupt political machine it keeps in motion, are an enormous drain on this country's economic potential and its hopes for becoming a prosperous free market democracy. End Summary.

12. (U) Most of Cote d'Ivoire's cocoa harvest normally takes place each year from October to March, though small amounts continue to be harvested after that. In 2005, the harvest started four weeks early due to exceptionally heavy rains, which accelerated the growth of the cocoa crop. Uncertainty about the political situation, as the October 31 date for presidential elections approached and it became increasingly clear that the elections would have to be postponed, also acted as an incentive for farmers to get their cocoa crop in early.

13. (U) The Cocoa and Coffee Marketing Board (BCC) usually makes a formal announcement at the beginning of October that the harvest has begun, and it announces the indicative price that farmers should expect to receive. This year the announcement was delayed by two weeks because of protracted negotiations over the level of the indicative prices, as well as the level of fees to be collected from farmers for cocoa support and regulatory organizations. This means that cocoa was flowing for six weeks before the indicative price was announced.

14. (SBU) BCC told us that their estimate for the harvest in the October - March period is 942,000 metric tons, up 3 percent from the previous year but slightly below the initially anticipated level of one million tons. (Reuters reported that this year's harvest was 914,000 tons, down 3 percent from last year. The local Reuters correspondent told us their figure was based on company estimates, and probably less reliable than BCC's figure.)

15. (SBU) For the full calendar year 2005, BCC told us production was 1,405,000 metric tons, 6 percent higher than the previous year. Exports in 2005 were 1,195,000 tons, or 86 percent of production.

16. (SBU) World cocoa prices are expected to average USD 1,720 per metric ton for the 2005-2006 harvest season, 2.5 percent higher than the previous year. The expected average farm gate price in Cote d'Ivoire this year is the equivalent of about USD 866, a 25 percent increase from the previous year

as market conditions shifted somewhat in favor of the farmer.

However, farmers are still only receiving 50 percent of the world market price this year, up from 41 percent last year, but still low. Meanwhile, production costs are significantly higher because of the near total collapse of centrally funded infrastructure support programs (e.g. to buy fertilizer and bags).

¶17. (SBU) This year the government is collecting the equivalent of USD 526 per ton in export taxes and customs fees. Another USD 107 per ton is being collected to fund four parastatal cocoa organizations, bringing total taxes and fees to 37 percent of the world market price. (With 50 percent of world price going to farmers and 37 percent to the government and parastatals, the remaining 13 percent goes to market intermediaries.)

¶18. (SBU) Among the parastatal organizations, USD 61 per ton is being collected for the Fund for the Promotion and Development of Cocoa and Coffee Producers (FDPCC), which is supposed to be providing infrastructure support, and USD 24 per ton is being collected for the Fund for the Regulation of Cocoa and Coffee (FRC), which is supposed to be intervening in the market to stabilize prices.

¶19. (C) Although the government continues to collect money from farmers to fund the FDPCC, it is actually passing only part of this money to the FDPCC. For its part, the FDPCC is passing almost no money back into the sector for infrastructure support, because of embezzlement and bad investments made in the past. The government is similarly passing along only some of the fees collected for the FRC, but this money too is disappearing -- the FRC is not conducting any market support operations.

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¶10. (C) Besides the FDPCC and the FRC there are two other parastatal cocoa organizations: the Authority for the Regulation of Cocoa and Coffee (ARCC), which issues export licenses, and the BCC (Cocoa and Coffee Marketing Board, cited above). This year the equivalent of USD 13 per ton is being collected for the ARCC, and USD 9 per ton for the BCC. There has been somewhat less controversy surrounding the operations of these two organizations.

¶11. (C) Since the farmers are receiving almost none of the support their fees are supposed to be paying for, in February they demanded that the government refund the equivalent of USD 34 million in fees collected over the past few years. In response, the government in March created a new special committee with representatives from the ministries of finance and agriculture as well as from the four parastatals, to monitor more closely how the fees are being spent.

¶12. (C) The government remains heavily dependent on cocoa export taxes. In recent years they have accounted for 20 - 25 percent of revenues, and for 2006 they are expected once again to account for 20 percent.

¶13. (C) Comment. President Gbagbo recently warned publicly that unless investment in the sector picks back up, Cote d'Ivoire is in danger of losing its place as the world's leading exporter of cocoa. Our industry contacts tell us that will not happen this year, but it could happen in the next few years. Nevertheless, there is no question that corruption in the cocoa sector, and the corrupt political machine it keeps in motion, are an enormous drain on this country's economic potential and its hopes for becoming a prosperous free market democracy. End Comment.

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